Second Session: Currency Reform and Business Stability.

Lessons from the Bank of England, by Joseph French Johnson

Currency Reform from the Business Man's Standpoint, by Irving T. Bush

Discussion

SATURDAY, NOVEMBER 12

Third Session: Proposed Changes in our Monetary System

Principles that must Underlie Monetary Reform in the United States, by Paul M. Warburg

The Transition from Existing Conditions to Central Banking, by Charles A. Conant

Discussion

ANNIVERSARY DINNER

The anniversary dinner of the Academy was held at the Hotel Astor on Friday evening, November 11th, Mr. A. Barton Hepburn, President, presiding. The subject for discussion was "The Need for Currency Reform." Addresses were delivered by President Nicholas Murray Butler, of Columbia University, Professor Leo Stanton Rowe, President of the American Academy of Political and Social Science, Senator Nelson W. Aldrich, Honorable A. Piatt Andrew, Jacob H. Schiff, Honorable George E. Roberts, and Professor J. Laurence Laughlin.

The conference came to an end with a reception on Saturday afternoon, November 12th, tendered to members of the Academy, official delegates and guests, by the president of the Academy, Mr. A. Barton Hepburn, and Mrs. Hepburn.

The papers read at the sessions are printed elsewhere in this volume (see pages 225, 233, 254, 376, 389, 397). The discussions and the addresses at the anniversary dinner are found in the following pages, except the address of George E. Roberts, Director of the Mint, which is printed at page 358.

DISCUSSION. FIRST SESSION, FRIDAY MORNING

The discussion at the first session was opened by Mr. George M. Reynolds, President of the Continental and Commercial National Bank of Chicago. Mr. Reynolds pointed out that rediscounting is almost impossible under our national banking system. The practise should be

stimulated, he held, under proper conditions. To a considerable extent the local banker, through his control of credit, holds in his hands the industrial destiny of his community. His ability to get credit through rediscounts should be considered a sign of strength rather than weakness. The present problem is not note issue, but flexibility of credit. For this reason Mr. Reynolds favored reform legislation. The bankers, he said, should join in a campaign of education in favor of the idea. In passing, he defended the character of American bank assets as compared with those abroad.

MR. ARTHUR REYNOLDS, President of the Des Moines National Bank: I hesitate at this time to make any suggestions at all upon the subject, because I am not in a position to speak for the American Bankers' Association. We have been awaiting the report of the National Monetary Commission, and we desire to coöperate with them in securing some adequate law. However, I might suggest one or two things which seem to me very important.

Most vital of all is the maintenance of the individuality of our banks. We must not establish any institution which will circumscribe their powers to do business or will tend to eliminate them. The great progress of our country has been due in good part to the work of our independent banks. Local banks have accumulated funds for the development of local enterprises. In other countries, through branch banks, deposits are forwarded largely to parent institutions in large cities, at times to the detriment of smaller places. I believe that our individual banks are worthy of a permanent place in the financial affairs of the country.

If a central bank is to be organized, it is desirable that the subscriptions to its capital should be open to all national banks in some proportion to their capital, or that some other plan should be provided to prevent its being controlled by any large moneyed interest. Coming as I do from the country, I am familiar with the objections that are raised to any form of central institution and to any plan of currency reform which does not contemplate giving country banks an equal privilege with city banks in the issue of credit currency. Without this privilege, I am positive that country banks will oppose legislation. We must devise a plan which is correct in theory, and which will command the confidence and support of the banking and business public. To command such support, the plan must be beneficial to all banks, large and small alike. We must be careful not to urge legislation favoring any particular class of banks.

The national-bank act should be broadened and liberalized to give the national banks of the country better facilities to compete with other kinds of banks. State institutions have grown up under state laws, which in many states treat them with great liberality. We should amend the national-bank act to enable our banks to handle all kinds of desirable business and thereby meet competition.

Discussion. Second Session, Friday Afternoon

Mr. James B. Forgan, President of the First National Bank of Chicago:

I wish to make one essential point. I came to this country after a long banking experience in Scotland and Canada, and found the discussion going on the same as at present about our national banking system and our currency. I jumped into the arena at once, advocating branch banking in this country; but I found that it was not American, and I discovered that probably I was not enough of an American at that time really to understand the situation. And I am not sure that I understand it now. I am a student and back again in the class of students; my mind is open. I am willing to give any assistance that I can in the practical detail of a new system, but I am looking to the students who have time to study, the professors of political economy and now the Monetary Commission, to evolve the proper principles of such a system. We practical bankers can be of assistance in working out details. Whenever you hear a professor of economics or any other student of this subject pass over some point and say, "Oh, that is just a matter of detail," you just mark it that that is the point that he does not understand; it is there that the banker can help, because banking is one mass of detail from beginning to end; and if we bankers don't know something about detail, we don't know anything. As bankers actually engaged in the details, in settling one thing after another as it comes up, in thinking about what we are doing without looking around us much, we may go wrong in principle, we may run counter to some economic laws that will check us in our work, and we may afterwards discover that we have made some great mistakes. That is where the students of political economy after a study of the general effects of our individual actions may come in to put us right.

I think I have indicated the attitude of the American Bankers' Association, that they want to be helpful. Let the theorists, those who are not actively doing work but who can study from past history and from present conditions the effect of what we are doing, lay down principles for us, and then let us help them with the details.

EDWARD D. PAGE, of Faulkner, Page & Co., New York:

This problem is one of diminishing the cost of production. One of my classmates showed Andrew Carnegie that he could produce three times the amount of pig iron formerly produced, at a cost of less than half the previous one. The one step that he took eventually diminished the whole cost of producing pig iron throughout the United States, and enabled Carnegie so to outdistance his competitors that he was able to capture a very large proportion of the trade of the country. When J. P. Morgan consolidated the large steel concerns he took another step in diminishing the cost of production and put our steel industry on a basis where it could compete with the world.

One need of the industries of this country is equal financial facilities for competing with the rest of the world. One of our present disabilities is the great cost which American manufacturers and merchants are under because of great fluctuations in the rates of interest due to undue expansion of credit at one time of the year, and undue contraction at another.

The next point is the scattering of the enormous reserves carried by our banks, so that they do not produce the psychological effect that they would produce if brought together into one pool.

The next is the friction which is involved in the bad handling of both domestic and foreign exchange. In other words, there is a necessity for our developing methods of obtaining moderate and fairly stable rates of interest, and moderate and fairly stable rates of exchange. Otherwise we cannot compete on an equal footing with our foreign competitors. I have often seen the time when the difference in the rate of exchange alone would throw an order for cotton goods from our southern cotton mills to Manchester. We are today at times in dealing with South American countries obliged to do our entire business for the year within a month, that being the only time when the rate of exchange will permit us to sell goods so that they can be retailed in those foreign countries at prices at which they are able to buy. During the rest of the year it is absolutely impossible to do business because of the exchange rates which fluctuate from thirty to forty per cent. Of course that is a great deal worse than the rates of exchange that we are compelled to consider in our dealings with Europe.

Approaching this subject as I did with certain prejudices against centralization and in favor of individual action and initiative, I have come to believe that the currency problem of the nation is not a matter that can be trammeled by such prepossessions, and I have been gradually converted to the belief that a central bank can perform an

important and necessary function in lowering the cost of production, just as was done in the illustration which I quoted. In the first place, it could concentrate reserves; in the second place, handle the exchanges; and in the third place, control the flow of gold to and from this country by reason of its power over foreign exchange, investing in foreign exchange at certain times and selling its own exchange at other times. I am therefore heartily in sympathy with the efforts being made by the Merchants' Association to popularize the thought that such a bank, if free from political control and free from control by selfish interests, could perform these functions in a way to help along the industries of the country.

ALEX. DELMAR, New York:

After listening to the eloquent address of Professor Laughlin of Chicago University, I have become a complete convert to his views. He contends that the government of the United States should have no concern with money; that the "national" banks should be empowered to control entirely its issue and retirement; that their privilege to pursue the lucrative vocation of advancing money on pledges should not be hampered by usury laws or other regulation. This appears to be the mysterious "detail" which, to-day, Mr. James B. Forgan, president of the First National Bank of Chicago, intimated was quite beyond the comprehension of ordinary people. According to Professor Laughlin's political economy, even the right of the government to tax the exorbitant profits of the banks should be destroyed or curtailed; so that, to repeat the significant words of Mr. George M. Reynolds, president of the American Bankers' Association and adviser to the National Monetary Commission, the "national" bankers may "hold in their hands the destinies of the entire people". In all of these patriotic and generous sentiments the measure of my recent conversion compels me to join heartily.

I notice, also, with the zealous eyes of a newly found faith, that the full-length statue of Augustus Caesar graces this hall; for it was he who took from the Commons and the Senate of the Roman republic the power to issue money, so that the stamp of *Senatus consultum* no longer meant "with the approval of the people and their representatives," but only with the approval of the deified emperor who had usurped their power.

So much for my present converted views. Now for my former and mistaken ones; the beliefs which appear in my works on money and which I ventured to entertain before I listened to the persuasive arguments of Professor Laughlin. These ancient beliefs I now renounce

with contrition. I surrender them to the future writers on money. I shed with them the regretful tear of a controverted penitent, a victim to Professor Laughlin's seductive political economy.

I used to believe—I am almost afraid to confess it, for it is becoming heretical—I formerly believed, that money was an institute of law, designed to measure value and facilitate exchange, that the control of its symbols, such as coins and notes, was of necessity a royal or state prerogative, as laid down in the digest of the Roman legal decisions; in the forensic essays of Budelius and Grimaudet; as decided in 29 Edward I and 7 Edward VI, also in the great Mixt Monies case which was adjudicated in 2 James I; and as is still retained in the effete constitution of the United States of America. In these ancient archæological charters of a time when there was a scarcity of political economists and "national" banks, money issue was held a part of the regalia, which no sovereign state could surrender without loss of autonomy. You will also find these misplaced principles of government laid down in James Neckar, who was the finance minister of Louis XVI; in Henry Thornton, a distinguished member of the British Parliament, whose treatise on the subject is one of our classics; in J. R. McCulloch (not our late Secretary McCulloch); in John Stuart Mill, with whom I h d the honor to discuss this very subject; and in the writings of other jurisconsults. I used to share these antiquated views; but now I renounce and abandon them to their wretched and deserved fate. I once ventured to believe that money being a measure of value, and susceptible, like other measures, of being limited by law, it could and should be and was employed to measure the value of commodities, for example, wheat. I believed that it was money that measured the value of wheat, just as the bushel measured its bulk; but now, following Professor Laughlin, I believe that value measures money, that wheat measures the bushel, that the unlimited measures and should measure the limited; and that, following President George M. Reynolds, the "national" banks' asset currency should measure the "destinies of the American people." Yea, the joy of conversion is sweet, and none can share or imagine its delights until after he has listened to a few modern, up-to-date, politico-economical discourses on the advantages of "national" bank supremacy.

Maurice L. Muhlemann, New York city:

I want to put in a few words in defense of the emergency currency law, which Professor Laughlin this morning left in a "frazzled" state. While I regard the Aldrich-Vreeland law as a mere temporary expedient, or stepping-stone in the direction of the central-bank plan, which

I have advocated for years, I want to put upon record my disagreement with some of the important conclusions contained in Professor Laughlin's admirable paper.

As he pointed out, when monetary troubles are upon us, there are two classes of people to be considered: those who must have actual cash for their daily business (as for payrolls), and all others, who do not require actual cash, but must have credit.

It does not matter what kind of cash is supplied to those who need it; silver dollars are as good for their needs as legal tenders, and bank notes are as serviceable as gold coin. The Aldrich-Vreeland law in making provision for the issue of additional bank notes supplies the need. Banks may by such issues conserve their reserve cash and thus be in better position to meet the demands of those who need credits.

If there is a call on the city banks for cash to move the crops, they need not remit reserve money, but can send the bank notes which under the law they can obtain upon the deposit of their securities and commercial paper. Such notes are as satisfactory for the purpose as would be reserve money, and the city banks save their reserve money.

Professor Laughlin praised the system of clearing-house loan certificates. The emergency-currency law is merely an extension thereof; the loan certificates are issued on a bank's negotiable instruments to furnish means for those whose needs do not call for cash; the law provides that the same class of assets may be used to furnish cash for the needs of the others. It is obvious that in times of apprehension, the latter provision is equally important to avert a panic.

Furthermore, these notes are also available in a measure to provide for those who do not need cash; bank notes serve as reserve money for state banks and trust companies, whose aggregate deposits and resources to-day are nearly as large, if not quite, as those of the national banks. For this vast amount of deposits the emergency notes, as well as other bank notes may be used as reserves, thus further strengthening the general status of the banks.

Professor Laughlin appears to have overlooked these features; and, whatever else may properly be said in criticism of the Aldrich-Vreeland law, I feel that it is only fair that these facts appear in the record.

WALLACE P. GROOM, Brooklyn:

European financial methods cannot wisely be accepted as a pattern for us. The privately-owned banks of England and France and other kindred institutions of Europe operate (at home) chiefly with and for people of the creditor class. The United States is most unfortunately a debtor nation. During the twenty years from 1890 to 1909 our ex-

ports exceeded our imports by the colossal sum of seven billion dollars; yet our indebtedness abroad continues to be enormous. What is the reason? Is it not due to excessive interest charges on our foreign debts and the oft-repeated, though indirect, renewals thereof? European interest rates as compared with ours are moderate, and our excessive interest rates make it difficult to compete successfully, other things being equal, with other countries. Money with interest added according to the practise of savings banks for 100 years at six per cent will amount to seventeen and a half times as much as at three per cent. Hence the great need of wise and equitable currency adjustments by the government which will surely maintain (not by "usury laws") a just rate of interest to the great benefit of lenders as well as of borrowers. This result could be accomplished by discarding the use of merchandise as a pretended standard measure of values.

In conclusion, let me quote from the New York *Mercantile Journal* under date of July 5, 1865:

"In the interchangeability (at the option of the holder) of national paper money with government bonds bearing a fixed rate of interest, there is a subtle principle that will regulate the movements of finance and commerce as accurately as the motion of the steam engine is regulated by its governor. Such paper-money tokens would be much nearer perfect measures of value than gold and silver ever have been or ever can be. The use of gold or other merchandise as money is a barbarism unworthy of the age."

MR. WILLIAM FREDERICK DOLL, President of the American Monetary Association, New York;

Why should money not be issued by the national government on the same principle that we issue postage stamps, that is, direct to the people? Money should be issued and loaned upon real property up to twenty-five per cent of its assessed or market value, and to the municipalities upon their bonds. New assessments would be made every four years. This would free the people from the yoke of the bankers, the usurers and the trusts; it would for the first time make a democracy possible. A postage stamp is a medium of exchange which insures two cents worth of postal or government service. Media of exchange called money are manufactured in the same way as a postage stamp, by legislation. Then why should not New York city and other municipalities borrow this money direct from the federal government in place of paying several hundred and often several thousand per cent profit to bankers? If that were done money would be at the same rate of interest throughout this country, and you would not, as today, see

part of the people paying two hundred per cent interest for the use of a medium of exchange that the bankers through special legislation borrow from the federal government at a half of one per cent.

Money is very cheap to the national bankers, but it is not to the people; and money, being a medium of exchange like a postage stamp, should be equally accessible to all the people, if we are to have a democratic country. The Aldrich-Vreeland bill, permits the lending of money to banks upon municipal bonds. Why should not New York city borrow its money direct? Surely a national banker's signature to a New York city bond does not improve the bond; then why pay the bankers hundreds of millions of dollars for that signature?

Discussion. Third Session, Saturday Morning

C. Stuart Patterson, President of the Western Savings Fund, Philadelphia:

I have no word of criticism for that which has been said by Mr. Warburg, with his accustomed force and earnestness. Indeed, he has expressed the view which is held by all those who have most thoroughly studied this subject. The more anybody does study it, the more certainly will he come to the conclusion that there is no practicable and final solution of the problem other than the adoption, in some form or other, of a central agency which will bring together in one reservoir that great reserve upon which depends the stability of our financial institutions. It seems to me that Mr. Warburg has also dealt in a very practical way with the various difficulties which must be encountered in perfecting this scheme, and also in securing for it popular support.

We are practical men, and we want something done. We have been wanting something done for a long time, but it is not going to be done to-day. No man conversant with the practical details of legislation can bring himself to believe that in the short session terminating on the fourth of March next it will be in any way possible to put through any bill upon this subject, even though those who are framing the bill could be brought to an agreement, and though the requisite popular support could be obtained. Nor will any such man believe that it would be practicable to do that at the next session, with a presidential campaign impending, and with both parties fighting for advantage,—but it ought to come soon after that. In order that it may come, it is necessary not only that the ordinary work of education should go on; it is necessary not only that there should be addresses in every part of the country, and that every effort of that sort should be made to influence public opinion; but it is necessary also that something more definite, and more practical still, should be done.

If we want legislation there is one practical way in which we can get it,—and on this very subject I once had a little experience that I may be pardoned for referring to. After the meeting of the Indianapolis Monetary Commisson I went with Senator Edmunds and ex-Secretary Fairchild, as a special committee appointed by the commission to talk to President McKinley about the practicability of getting a positive and unmistakable declaration upon the gold standard. He sent us to Speaker Reed, who received us courteously, and said, "Gentlemen, you do not expect us to put this bill through? It is not possible to put it through." We went home and organized an aggressive and active movement. Mr. Hugh Hanna established headquarters in Indianapolis, and sent from there not circulars, but letters personally written to carefully-selected men in every congressional district in this country. When we went back to Speaker Reed, he said, "Why, there seems to be a popular demand for your bill; every member in the house has been to see me and talk with me about it, and they all say they are getting letters from their constituents." In consequence there was put upon the statute books of the United States a positive and clear declaration in regard to the gold standard.

That is just what you must do in this case; you must uphold the hands of Senator Aldrich. You have got to see that the bill which he formulates—and which will be the right bill—that the bill obtains the support of every part of this country. When that thing is done we shall have a financial system in the United States of which we shall have reason to be proud, and any man who has played any part, however slight, in connection with that great work, will have reason to congratulate himself upon having done it.

PROF. DAVIS R. DEWEY, of the Massachusetts Institute of Technology.

In the past two years, since the question of the central bank has come to the front, we have made considerable progress. I was much pleased with the first paper, to say nothing of the second, in that so much emphasis was placed upon the two points of the fluidity of the reserve and the extension of credit, rather than on note issue.

It would be presumptuous for me to give any advice to the Monetary Commission, but it seems to me that the further they can keep from the question of note issue in any proposed plan the more likely they are to obtain success. The people, as a rule, are not particularly interested in banking questions other than note issue. The great questions which have involved controversy in our banking history have centered very largely around that particular function.

With regard to the reserve, the people care but little, and you can

secure, I believe, with comparative ease, what legislation you wish. As to making our credit more fluid by securing a system under which paper can be rediscounted more freely, by which a larger use of bills of exchange can be introduced—if legislation be necessary for that, I believe it can be obtained.

The literature which the commission has published, so far as I have read it, has emphasized this conclusion, that the success of foreign banking, and particularly of English banking, has been in administration rather than in law. If there is one thing that Mr. Withers brings out more than anything else in his monograph on *The English Banking System* it is the absence of restriction. The absence of law has contributed to the development and success of British banking. If we can free our banking system of some of its shackles, so that greater responsibility may be placed upon the banker and greater opportunity given him, we are likely to advance further than by making any new, rigid system.

I hope, therefore, that the commission, if it finds that it cannot secure a reasonably unanimous agreement upon a plan involving note issue, will throw that point aside, and devote its efforts to the two questions of reserve and the extension of credit through a wider use of credit instruments. With these two things alone, even if note issue were left where it is, we should make a great gain in our banking system. Other reforms must come, doubtless, because changes must be made in our bond-secured note issue with changes in the public debt, but such reforms can come later.

The people, I believe, will not be willing to leave to Mr. Warburg's central board of control, who have charge of the central reservoir, the power also to control the auxiliary reservoir, without a very definitely prescribed set of rules as to what they are going to do with it. The advantage undoubtedly would be very great, but so far as I can learn from the paper, it is proposed to leave to the central board discretionary power as to the amount of this currency to be issued by the central board, to supplement the bank-note circulation.

Nor did I observe from the scheme any very definite plan with regard to redemption. Of all the various features of our banking system that have evaded adequate discussion, the question of redemption is, it seems to me, the most important. If, as the speakers last evening thought might be possible, you are to keep this bank question, with that of bank-note circulation, out of politics, you must see that undue inflation does not occur. Every other system of banking with which comparison has been made has an effective system of redemption ; but

we have independent banks, and no definite proposal has been made whereby notes will be redeemed as they are issued. I am afraid that the speakers of last evening were a little too optimistic in thinking that you can keep the money question out of politics. It has not been out of politics very long, and if we study political history we find an inclination on the part of those who shape political issues—call them demagogues, if you will—to divert the attention of the people from other issues to this issue.

MR. LEWIS E. PIERSON, President of the Irving National Exchange Bank :

Meetings similar to the one you are holding here have in the last few years been held in practically all of the several states by associations of bankers. At these meetings there have been discussions on asset currency, branch banking, a central bank and the necessity for monetary reform.

As an evidence of the educational value of these discussions I might say that about eight years ago I attended a joint convention of the Missouri and Kansas bankers which was addressed by Mr. James K. Eckels, former comptroller of the currency. His audience was hostile in every sense of the word. This last summer the Kansas Bankers' Association, made up of the same bankers who listened to Mr. Eckels' address, and who were so hostile at that time, passed a practically unanimous resolution favoring the organization of a central bank as the best medium by which we can better the banking and currency situation in our country. Educational work among bankers is still going on, as we keenly recognize how vitally important it is to arrive at the best possible banking and currency system.

It seems to me that the work you are doing here is of great importance, and should be as widely known as possible, and the thought naturally occurs that as there are so many journals published by business men's organizations throughout the country, your proceedings might be distributed to these journals, and through them, brought to the attention of their members. When these members realize the necessity for action they will see to it that this great question is not made a partisan matter in congress, and, as soon as Senator Aldrich and the Monetary Commission formulate their plan, the influence of these business men will be behind the proposition and will aid in securing its enactment.

JOHN MARTIN, of New York :

I agree with Professor Dewey that it is quite utopian to hope that the settlement of this question will be non-political, even if partisanship

be to a great extent eliminated. The people of the United States, more than any people in Europe, have insisted upon having a voice in the settlement of almost all questions hitherto, and it is vain to hope, I think, that they will be persuaded now to leave this one entirely to experts. Therefore it is essential that the popular features of such a scheme as Mr. Warburg so ably outlined this morning shall be emphasized. His plan, which I take it demands and secures the support of most of the experts in its main outlines, fortunately also contains features which will appeal to the non-experts, the populace.

For example, his insistence that loans shall be to a large or to a much greater degree based upon commercial paper, and that loans on Wall-street stocks shall be diminished, would recommend that scheme, I think, very widely. We all know, and we may as well accept it, that there is a strong sentiment—call it prejudice, if you will—throughout the country, against what is called Wall-street influence, and if, in connection with that scheme, it can be fairly understood that loans on Wall street are to be superseded to a great extent by loans based upon commercial paper, undoubtedly the popularity of the scheme and its chance of acceptance will be greatly improved.

The people are naturally very jealous, and properly, I think, of any proposal by which governmental power of any sort or the power to make large profits on a kind of governmental privilege shall be conferred upon a private corporation. But, if it be clearly understood and accepted by the banking authorities that the central-reserve institution shall under no circumstances take more than four per cent profit, and if it is further understood that the profits which may be made will go into the public treasury for the common good, a large measure of support will be won for the scheme that would not be otherwise forthcoming.

In connection with that I would suggest that perhaps popular opposition might be still further avoided without impairing the safety of the scheme at all by eliminating the idea of the government's guaranteeing even four per cent. Is it not sufficiently certain that the four per cent would be earned to make it unnecessary to weight this scheme with a government guarantee, which would undoubtedly incur popular opposition? Would the safety be in the slightest impaired? Could not experts agree upon that without government guarantee? If so, is it necessary to invite the popular opposition which would certainly rise against a government guarantee even of that kind for the capital of the reserve institution?

Another question I would raise about Mr. Warburg's scheme, so ad-

mirable in its outline, is as to whether it would be wise to insist, as he seems disposed to do in just two or three sentences, upon the abolition of the independent treasury system and the deposit of all government funds with the central reserve institution. Would it not be sufficient to do as a speaker yesterday suggested, determine the maximum necessary for the treasury and sub-treasury to hold for the conduct of their business, and simply insist upon the deposit with the central reserve bank of the surplus beyond that maximum declared necessary for the treasury business carried on day by day? Undoubtedly the abolition of the treasury system will excite enormous opposition. If that objection can be evaded, conservatively, safely, by such enactment as the speaker of yesterday suggested, I think politically there would be a great advantage.

The last point I will raise is after all the vital one, the control of the central-reserve institution. It was arranged by Mr. Warburg's plan that the government should be represented through certain executive officers, but that the banks should be dominant, having a majority in the board of directors, or whatever name may be applied to them. There, again, it is utopian to hope that you can get such a scheme adopted without political agitation, and I want to suggest simply for consideration the possibility of securing the same end, the same stability, the same expert management, and yet not incurring the political opposition certain to be made against a proposal which would be interpreted as a plan to give the banking power of the United States still greater control, still greater privilege.

Would it not be feasible to organize some system, for example, by which certain chambers of commerce, credit institutions, boards of trade and other organizations which represent wider interests than the mere banking interest, which are more democratic, and yet which are not in danger of being ruled by mere uninformed popular clamor, shall have such voice either directly or indirectly in electing directors of this central institution, that it shall be put under more democratic control, without any danger at all of that control being political in the ordinary acceptation, without any danger that the directors so appointed would not prove the wisest expert managers for the central institution? Democracy does not mean necessarily that Mr. Taft must choose the directors, or that the directors must be chosen by popular vote. Democracy, however, which in my opinion should prevail to a great extent in the management of any such institution, does mean that wider interests shall be represented in its management than banking interests. The wider you can make the interests so represented with-

out danger to your central principle of expert management and solidity, the more likely you are to get it adopted by the country.

MR. ALFRED O. CROZIER, of Wilmington, Delaware:

I must confess a conversion to the central-banking scheme. It has been a slow process. It has been largely a process of elimination. I cannot devise any other way by which we can have the elastic currency that we need, and still have the system safe.

In an address some time ago President Taft said that the trend of mind of a majority of the Monetary Commission seemed to be towards a central bank of issue, but that such institution if established must not be controlled by Wall street or by politics. This declaration hit the nail squarely on the head and pointed out the two greatest dangers. While recognizing fully the public service rendered by the commission in a most difficult matter, in common with others I should regret any attempt to take from the federal government and put into private hands control of the issue, expansion and contraction of the public currency. Surely the people are not ready to syndicate their entire money supply.

If private parties ever obtain through a central bank or otherwise the legal authority to make money scarce or plenty at their pleasure, they will possess the power of money monopoly by which business credit, the activities of the country, the prices of securities, property and labor can be arbitrarily and suddenly destroyed, and panics, even, can be created. They could if they would terrorize and absolutely dictate to every bank in this country, forcing them all to pay a certain rate to depositors and to loan at a fixed rate to ordinary customers, but to pay a higher rate for the deposits and charge a lower interest on the loans of the trusts and big enterprises in which such private parties have a direct or indirect interest. Each bank would become a mere involuntury agent for collecting the deposits of the people and disposing of them according to the will and pleasure of irresponsible private interests emboldened and made reckless because screened from public view. They would have the benefits without the responsibility. The banks would soon have the responsibility without the benefits. Borrowers would have to pay an ever-increasing interest rate while the interest paid to depositors would be steadily reduced. This is the method always employed by private monopoly when it obtains the power. Its one object is more profits. I do not believe the country will ever approve any plan that would put into private hands this power of life and death over all the affairs, the interests, the prosperity and the happiness of the people. No scheme of private ownership or control of a central government bank can be devised that will not ultimately lead

to control by Wall street; and Wall-street control would mean politics. That was the history of the privately-owned United States bank abolished by President Jackson.

The Monetary Commission undoubtedly will cite private ownership or control of government banks in Europe. But there is no Wall street in Europe. Banking there is usually conducted by men who have no other interests or profession. Here it has become almost the rule for big banks, insurance and trust companies containing the deposit savings of the people to fall under the control of the few masterful men who so largely dominate the railroads and huge trusts, and who use such funds for schemes of exploitation and business in which they have direct or indirect interest.

It would seem clear that a central bank in private hands would complete by law a great money trust. Its powers of monopoly would tend to impose higher interest rates on the people. Its coöperation with the great central banks privately owned abroad would make it easy to increase horizontally the interest rates and value of the bond or fixed-income wealth of the entire world, thus increasing at one stroke and without reason or justice the debt burden on all humanity.

Our own government doubtless would be forced to pay a higher rate of interest on its billion dollars of bonded indebtedness because it had surrendered into irresponsible private hands the absolute power to remove all real competition for loans. The seat of the international conspiracy that forever would fix the interest rate for America and rule in its own interests the financial policy of this republic would be in Europe, far beyond the reach of our anti-trust laws.

The time for Congress to act surely has arrived. The postal-savings-bank law was a good beginning. But now we need a strong central government bank, a real government bank, to rescue the business and the banks of the country from the intolerable conditions into which they are being dragged by Wall-street interests. Such a bank perhaps should rediscount on impartial terms and under proper safeguards for the other banks. The people will insist that the institution be owned and controlled by their government rather than by private parties or corporations. Some will object to divorcing the states from participation in the control and to centralizing all the vast power in Washington. A compromise between the two extremes of private ownership and a centralized federal control would seem possible and wise. The states could be recognized and the power safely balanced so as to care for the local interests of every state and also to conserve the welfare of the country as a whole.

A board of perhaps one hundred governors serving without salary, one member appointed by the governor of each state for two years, and the other fifty-four by the President for four years, one half of them every alternate two years, would be able to give the institution a strong, honest, independent and efficient management that would inspire the confidence of the business world as well as of the people generally. The danger of Wall-street and political domination would be impossible with a board so constituted.

This board could meet quarterly and on special call, the actual running of the institution being in the hands of a small executive council composed of highly-paid and specially-trained men of the highest character, chosen by the board from its membership or otherwise and sworn to their duties as public officials, such men to be completely divorced from all other business entanglements. This plan, or some modification of it, seems to be the only way by which a safe and satisfactory elastic currency can be obtained without increasing present evils. A great institution of that character so managed would in my belief be a national blessing second only to the constitution of the United States.

Your plan has got to go before the public before you get through; so that if you are working with the idea of actually accomplishing anything, a system must be devised in such form that it will ultimately meet the approval of the majority of the actual voters of the United States. That we must look squarely in the the face. The people will not care, as Mr. Martin has said, so much about details, but they will care, they will fight over one question, and that is the question of how this institution is to be controlled. That is the whole problem, and on it we can well concentrate our discussion.

I do not agree with Mr. Warburg, that the putting of the large power which he has outlined into the hands of a private corporation with dividends limited to four per cent, will make it absolutely certain that private interests will never want to get control of that institution and use it for their own private purposes. It is not so many years ago that certain parties were willing to pay several million dollars for a few thousand dollars' worth of stock in the Equitable Life Assurance Society, when the dividend was limited by law to seven per cent. The men who paid that high price for that small amount of stock were after something besides that seven per cent. They were after the control over the hundreds of millions of dollars of loanable funds under direct control of that institution, and the financial and political power that went with that control. A privately-owned central bank will have

a dozen times more financial and political influence over all the banks of the country, over the destiny of the people of the country and through politics over the government of the country itself, than all the insurance institutions in the state of New York.

I have pointed out a plan of control, because I think that is the whole question. I do not say that this plan is right; I simply put it out as a suggestion. This institution, in its effect upon the industries and the finances of the country, is quite as important in itself as is the congress of the United States. It is more direct in its every-day influence upon the welfare of the people. Therefore, in order to be approved by the people of the United States, this institution must be either owned or controlled absolutely by the people in some form or other.

MR. EDMUND D. FISHER, Deputy Controller of the City of New York:

It seems that just now what the country needs is a definite plan, and it seems to me too that this conference is intelligent enough, and has enough bankers of experience in its membership to develop such a plan. I therefore suggest the appointment of a committee to develop a plan to submit to the Monetary Commission. Mr. Pierson hopes that legislation will be secured at the next session of congress. It will not be done unless this very body appoints a committee to draft a plan and submit it to the Monetary Commission.

On motion it was voted that the President of the Academy be authorized, at his discretion, and after consulting with the executive committee, to appoint such a committee.

PAUL M. WARBURG:

Mr. Crozier and Mr. Martin will perhaps be surprised to hear that I fully agree with them in most that they have said. Their main point, I understand, is to be assured that we shall have control as far as possible by the people and not by politics or by Wall street. In the plan I submitted to you that was the first condition that I tried to provide for. I go further than that,—if we are not sure that we shall succeed in keeping this bank free from political or from Wall-street control, it should not be created. We cannot go further than that.

As to Mr. Crozier's plan to get together the governors of all the states and the President and let them appoint one hundred men, in order to keep politics out of the bank in that way, I am afraid that I cannot agree with him. I think it is the surest way to get politics into it. I think it would be a most effective way of getting the worst kind of bank control.

As for the objection that my plan is not so democratic as it should be, further study, I think, will remove that impression. This plan allows one-fifth of the board of governors to be appointed by the stockholders. This one-fifth is to consist, not of bankers, but if possible, of merchants, manufacturers, or other elements than officers of banks. One-fifth is to be appointed by the President, or, to consist of *ex-officio* members, such as the treasurer of the United States and like officers, and the remaining three-fifths are to be appointed by groups of banks. What does that mean?

To begin with, what is this awful institution called a bank? We are not talking of that horrible place, Wall street, but of banks generally. As a rule, the most prominent business men in each locality form the boards of directors in its banks. My plan provides that the banks of one district form an organization similar to those now proposed by the Aldrich-Vreeland bill, which means that the cream of the best element of all the banks, which in turn means the cream of all the best business men, would be interested. This association would name one director of the central bank. There would be men representing the north and the south, the east and the west. These men, who do not know each other, who have no special common interests, would constitute three-fifths of the board of the bank. It is pretty difficult to think of any wrong element getting into this board.

Mr. Crozier spoke of the control of life-insurance companies, and of some one paying so much for a few thousand dollars' worth of stock, whose dividend was limited to seven per cent. I think it ought to be clear by this time that a life-insurance company is something very different from a central reserve organization, as we propose it. A life-insurance company is in the nature of an investment trust, and there goes with it the power to invest millions and millions in securities, and also in stocks, the stocks again giving control of other institutions. What advantage—I should be much obliged to be told—could accrue to the men controlling this central organ which cannot do anything but buy commercial paper? Not a single bond, not a single stock, but only short commercial paper that must be endorsed by the currency associations themselves, in case it is longer than twenty-eight days. I am a Wall-street man, but if anybody should give me the control of that board, I could not do anything with it.

A VOICE: Do you not think there would be a power that might be improperly used in the control of the private corporation that had the power to issue currency and to expand and to contract the entire currency of the United States?

MR. WARBURG : That control might be dangerous if there were any personal gain or any gain whatsoever to be made, but here you have an institution which can do nothing but make four per cent for its stockholders, and if a small amount above this were earned it would go to the government. There would be no incentive to do or permit anything which was not legitimate.

You say it controls contraction or expansion. But again, how could it do that? Only by buying paper, with an entirely unselfish end, the maintenance of the correct proportion between all the obligations of the country and the correct gold reserve. You must trust some one to this limited degree. At any rate I would rather trust these men than your one hundred.

The suggestion that the chambers of commerce should appoint these men, I might say, was considered in our earlier plan ; but the chambers of commerce are rather undefined bodies ; they are self-perpetuating. Someone would surely claim that the chambers of commerce are Wall-street concerns. You saw quite recently when the New York Chamber of Commerce took a stand on the subway question, that it was said immediately that they represented Wall-street interests. You do not overcome distrust by inserting these bodies. These are only suggestions that we make. We know how difficult it is to approach the ideal. I only wanted to show you that we are fully in accord as to what we want to achieve and that we have given full consideration to these points.

I would like to say a word to Mr. Martin : I do not agree with him. I think that this question can be solved on non-partisan lines, but if it is drawn into politics, it will be only because each party will want to secure for itself the credit of having enacted this most beneficial legislation.

I would like to say one word to Professor Dewey about the possibility of eliminating the power of note issue. He misunderstood me if he thought I said that. I said that note issue was a side question, and ought to be treated as such. Note issue cannot be eliminated. There is no particular discretionary power, as far as this question of note issue is concerned, other than the discretionary power applied to the purchase of discounts. The central organ simply discounts paper. Whether the bank rediscounting the paper shall employ the book credit which it thus receives for the purpose of paying others in credit or in actual cash is beyond the control of the central organ.

As to the difference between the English, the French and the German system, I understood Professor Dewey to say that he thought the Eng-

lish system the better one. I disagree with him. I think that the thing we need is not the English system, but the German or the French,—to which the English will gradually come.

As to the redemption of notes, every note under the central-bank plan redeems itself. Let me take an instance. If the bank should collect all the paper it had bought, all the notes would be redeemed. It is not like a national bank, a security system where the notes go on and are redeemed by a special redemption fund.

I think a certain proportion, of course, must be kept in gold, but whether it should be 33 %, as in the German system, or 40 or 50 %, is a question which will have to be taken up later. I think 33 to 40 % would be sufficient.

One point more, as to the maximum guaranty of four per cent. I do not believe that we can do without it. Four per cent is such a beggarly return for a stock that nobody would buy it unless that return was so secured—it would be practically a government security, and for that reason would be purchased at par. The stock should stand at par, or above par, in order to give the institution the standing that it must command. Besides, the mere fact that the government guarantees the four per cent makes the government stand behind the whole thing,—and it should be so in our country, in order to establish confidence in the notes and in the whole institution. This would enable us to fight every panic which might arise, or rather to avoid it beforehand, and thus our outside banks would be secure.

SENATOR ALDRICH:

I would like to say just one word about what appears to be a misapprehension,—about the desire which is surely general to keep this question out of politics. I think that Professor Dewey and Mr. Martin misapprehended what we are trying to get at. It is not a question at all of eliminating this matter from politics, not that we propose to remove it from the arena of discussion, or that we expect to adopt any plan that does not receive popular approval. We realize that that is impossible.

What I am trying to avoid is having any suggested plan approved or disapproved on account of the advantages which some political party think they could derive from it. That is what we are after. It is to avoid having the question decided upon party lines, for the purpose of securing party advantage. We do not want to see this question decided by the supremacy today of the Republican party or the Democratic party. It is not a political, but a popular question.

I certainly have no hope or expectation or desire to see a plan

adopted that will not meet the test of public discussion, and will not in the end receive intelligent public approval in its broadest sense.

ADDRESSES AT THE ANNIVERSARY DINNER

Address of Mr. A. BARTON HEPBURN, President of the Academy.

The bankers and business men of Europe characterize our monetary system as barbarous, and there is much to justify their extreme criticism.

Essentially the same condition existed throughout the commercial world when the panic of 1907 overtook us. There was not sufficient mobile capital in the world to do the business of the world, to supply the current demands of an intense business activity, augmented by demands for new developments and new enterprise. Under the circumstances it is not surprising that money stringency ensued. The strain was as great in England as in the United States, and even greater in Germany; and yet from October 1907 to January of the following year, notwithstanding this condition in Europe, American bankers bought abroad and imported a hundred and sixteen million seven hundred thousand dollars in gold. The Europeans not only took care of their own affairs, but they spared that gold to us, and it was brought here at a premium ranging as high as three per cent for a goodly portion of it. At the same time, American banks, especially in the money centers, were compelled to suspend payment by the expedient of resorting to clearing-house certificates and clearing-house notes. The strain was no greater here than it was in other commercial nations, and yet they, by means of a superior credit currency system, were able to meet and master conditions without currency suspension.

The experience of that year, which is fresh yet in the memory of us all, shows many of the evils of our monetary system, three of which, I think, deserve special mention; first, the utter failure of our currency to expand and contract in response to commercial needs; second, the want of centralized reserves which can be used as a potent auxiliary for good when and where needed; and third, and quite as important as all, a new credit system, a means whereby credit can be extended, not only in times of stress, but at all times, in order that interest rates may be measurably equalized throughout the country.

Congress, confronted with this condition of affairs, gave us the Aldrich-Vreeland Law, a law which has been much and severely condemned for what it does not do, and perhaps justly. It was only an emergency measure, yet it boasts of many friends, and possesses many virtues.